Weekly round up (Week 10)

With the latest inflation data pointing to a weakening disinflation trend, consumer price rigidity and rising asset prices - all of which have the effect of easing financial conditions - investors are eagerly awaiting any sign that the European Central Bank (ECB) or the Federal Reserve (Fed) will backtrack on their commitment to begin the process of easing monetary policy over the summer.

At its March 7 meeting, the ECB left its key rates unchanged, as expected, but surprised investors by lowering its inflation projections. The updated quarterly forecast now assumes consumer price inflation of 2.3% in 2024, compared with 2.7% in December, and price growth in line with the ECB's 2% target for 2025. The growth outlook for 2024 was also lowered from 0.2% to 0.6%.

ECB President Christine Lagarde strongly hinted that the normalization of monetary policy would begin in June, while Bundesbank President Joachim Nagel, a monetary policy hawk, declared: "The probability is increasing that we could see an interest rate cut before the summer vacations".

In the U.S., Fed Chairman Jerome Powell's testimony before the House Financial Services Committee and the Senate Banking Committee gave investors plenty of opportunity to gauge his confidence in starting to ease policy over the summer. Mr. Powell expressed his conviction that inflation is now sustainably approaching 2%. On the subject of lower interest rates, he said: "It's not that far away. The overnight interest rate swap market puts the probability of a 25 basis point rate cut in June at 98%.

China seeks to restore confidence

In Asia, it was China's turn to demonstrate its commitment to supporting growth and restoring confidence. On March 6, Premier Li Qiang presented his first government work report to the National People's Congress, setting China's growth target at "around 5%" and the budget deficit target at 3% of GDP. Mr. Qiang also announced details of a special central government bond worth 1,000 billion yuan (US$140 billion), equivalent to 0.7% of GDP.

After the People's Bank of China reduced the banks' reserve requirement ratio (RRR) by 50 basis points in February, freeing up the equivalent of 1,000 billion yuan in the banking system, central bank governor Pan Gongsheng declared that further RRR reductions were possible and that he would strive to bring down funding costs.

Given the supportive measures taken by central banks, it was a good week for asset prices. Government bond yields fell, while corporate credit continued to generate solid total returns, with investment-grade stocks benefiting from lower government bond yields. The price of gold reached an all-time high of US$2,160 per troy ounce on March 7, two days after bitcoin broke its own record. The crypto-currency surpassed US$69,000 on March 5, taking its annual return to over 50%.

Oil prices were again buoyed by OPEC+ after its members agreed to extend voluntary crude supply cuts of 2.2 million barrels per day until the end of the second quarter. Equities continued to rise, with the S&P 500 recording just one weekly decline since the start of 2024, and that in the first week of the year.

Revenge

As the uncertainty surrounding central banks dissipates, another event looms on the horizon. In the U.S., President Joe Biden and former President Donald Trump are the two leading candidates left in the two primary races, foreshadowing a direct rematch for the election later this year.

This will be the seventh presidential showdown, the first since the 1956 contest between Dwight Eisenhower and Adlai Stevenson II. In the first four showdowns, the result was different the second time around; in the last two showdowns, the result has been the same. Current polls suggest that the upcoming election is too close to call.